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4 June 1975

MEMORANDUM FOR: Director of Logistics

SUBJECT: PPA/PRA Study Working Group - Description and Purpose of Simulated Direct Funding in FY 1976

1. At your meeting with the PPA/PRA Study Working Group on 29 May, you asked for a more detailed description of the simulated direct funding procedure that the Group is planning to recommend for your approval.

2. As reported to you, the Group has verified that adoption of direct funding per se will have no substantive impact on the supply, procurement, ADP, or finance systems. The substantive change will be limited to budget policy and management. Therefore, the proposal for a period of simulation under direct funding is limited to the area of budget control.

3. Simulated Direct Funding Procedures:

a. Direct funding contemplates that direct procurement actions for items that are not carried in the inventory will be an obligation against the operating budget/allotment of the requisitioning component and that inventory procurement actions will be an obligation against the operating budget/allotment of the component to whom "common budget" responsibility has been assigned for certain portions of the Agency's inventory. The denominator here is "operating component".

b. The budget accounting structure (FAN's) under the present PPA system is based on identification of materiel category distinguished between direct and inventory procurement. The single exception is the inventory procurement for Allocations 26 (agent communications materiel) and 61 (OTS cognizant materiel) where accounts are maintained for each of the allocations. This PPA accounts structure is not compatible with that anticipated under direct funding and does not produce responsive statistical information other than in gross totals.

c. To implement a simulated mode, we plan to revise the budget account structure of the PPA to parallel generally the budget account structure under actual direct funding procedures. Assignment of FAN's to requisitions for procurement action will continue to be the responsibility of Supply Division, Supply Management Branch. The FAN citation by requisitioning components

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for purpose of issue (indirect cost) charges under PRA will remain unchanged under the simulated direct funding procedure. A comparison of the current with the proposed FAN structure of the PPA against which information is accumulated and reports formulated is illustrated below:

Direct Procurement

Current Account Structure - FY 75

| | |
|-----------|-----------------------------|
| 5298-7812 | Ordnance |
| 5298-7822 | Transportation and Airborne |
| 5298-7832 | Industrial and Engineering |
| 5298-7842 | Communications |
| 5298-7852 | Electrical |
| 5298-7862 | Medical |
| 5298-7872 | General |
| 5298-7882 | Photographic |
| 5298-7892 | ADP |

Proposed Account Structure - FY 76

| | |
|-----------|--------------------------|
| 6298-0037 | East Asia Division |
| 6298-0063 | Office of Elint |
| 6298-0078 | Office of Logistics |
| 6298-0079 | Office of Communications |

Plus FAN's identifying all other operating components.

The last two digits, which identify operating component, are the same numbers used in the FRS (Financial Resources System) and which appear as part of the FAN cited by the operating components on requisitions for PRA issue charges. Under actual direct funding, obligations for direct procurement actions would be charged to the FAN presently cited by the operating components for PRA purposes. For example, under the simulated direct funding mode, direct procurement actions for OL would be charged to the PPA account 98-0078. Under actual direct funding, procurement actions would be charged to 78-1010 D/L and Staffs, 78-1020 RECD, 78-1141 P&PD, etc. For purpose of simulated direct funding, establishment of FAN's only at the office level will suffice.

Inventory Procurement

Current Account Structure - FY 75

| | |
|-----------|-----------------------------|
| 5298-7811 | Ordnance |
| 5298-7821 | Transportation and Airborne |

Plus FAN's identifying all other materiel categories as listed under Direct Procurement Current Account Structure above.

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Inventory Procurement (continued)

Proposed Account Structure - FY 76

6298-0210 Allocation 21 - OC major and/or
special equipment
6298-0430 Allocation 43 - Div D/TSD materiel
6298-0740 Allocation 74 - [redacted]
materiel (Caliber .30)

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Plus FAN's identifying other inventory
allocations. (see [redacted])

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STAT [redacted] Standard Codes, defines the allocation code as "code used on supply documents and supply status reports to indicate the purpose of the stock or identify property allocated for projects and/or specific components of the Agency". With use of the allocation code as the point for establishing the budget account structure, the simulated direct funding proposal in effect extends to the entire inventory the funding procedure now in use for budget control over OTS cognizant and agent communications materiel. The question of which offices will be assigned budgetary responsibility for the several allocation accounts need not be answered at this time and can await further study and recommendation by Supply Division and the major cognizant offices as discussed in separate memorandum. Establishment of FAN's on the basis of the current allocation structure will suffice for initiation of the simulated direct funding procedure.

4. Results to be Achieved under Simulated Direct Funding:

a. When direct funding is implemented in FY 1977, the Comptroller plans to make comparability adjustments in the operating budget and allotments by transferring funds for inventory procurement to the offices that have been assigned appropriate inventory budget responsibility. Accumulation of obligation information and related statistics during FY 1976 in a pattern that generally equates with the direct funding budget structure will enable the Comptroller and the operating components to quantify and to identify the purpose and amounts for comparability adjustments that are based on an "actual" year of obligation. The "actual" year will also serve as the base year in FY 1977 for management of funds and for FY 1978 program/budget requirements, estimates, and justification.

b. Direct funding will require precise definition of inventory policy both for purpose of assigning budgetary responsibility for direct procurement and inventory procurement needs and for purpose of developing an Agency budgetary procedure for identification of and provision for materiel requirements in the Agency's appropriation request and operating budget. The //

time afforded under the period of simulated direct funding will enable review and change in codes and classifications of the inventory, if needed, to assure compatibility with information needs under inventory budgeting procedures and to serve as the point of departure for development of an Agency materiel forecast program.

c. The period of simulated direct funding will coincide with development of an automated system for obligation control over procurement actions and for commercial invoice processing. Centralized control by OL over PPA during this period will tend to facilitate coordination efforts among CONIF, ICS, and GAS in these developmental plans and to facilitate solution of systems problems that can be anticipated with adoption of any new ADP processing procedures.

d. The revised PPA FAN structure will be of value to the D/L in management of PPA during FY 1976. Under the present system, the record of "contributions" to PPA by the several operating components--i.e. PRA--is identified by operating component. The record of PPA use is by materiel category. Therefore, analysis of the status of PPA in relation to the status of PRA, which is the source of funds for PPA, can be only in gross totals. This is living dangerously since the relativity of PPA and PRA figures is influenced by many unknown and unquantified variables such as time lags, errors in the systems, lost documents, etc. The ability to identify PPA direct procurement obligations by individual operating component will result in far more precise analytical results and isolation of problem areas.

e. Inventory procurement allotment requirements are now based on estimates by the major cognizant managers--i.e. SMB, OC/MSB, Div D. Under the present accounts system, each inventory allottee has been forced to maintain informal records on the use of the sub-allotments since the PPA accounts provide information only on total stock procurement. Establishment of separate accounts by allocation and provision of periodic accounting status reports by OL/BF will relieve each of these components of this bookkeeping function. SMB alone estimates manpower savings of 8 hours a week.

who said?

f. Use of a FAN structure that ties with the inventory structure (i.e. allocations) enables use of the capabilities of ICS to provide statistical information for management of the PPA. We can now turn to ICS (with enhancement of the recently-implemented requisition module) for reports on the dollar value of requisitions for allocation stock drawdowns by each operating component. Use of combined information from the budget accounts and ICS will also provide the means of monitoring stock procurements for each allocation against stock issues from each allocation.

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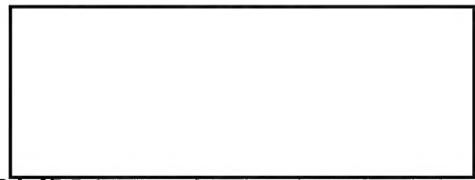
to assure the proper balance between funds made available for inventory procurement and actual procurement actions.

g. The wealth of information now or planned for the various computer systems--FRS, ICS, CONIF--absolutely challenges the imagination. At the meeting of 29 May you questioned the Group on possible loss to OL of information now available under the PPA system to anticipate and to quantify possible fourth quarter problems to Procurement Division resulting from end of year funding. It was conceded that adoption of direct funding would eliminate this specific source of information. However, OL can get from FRS (which includes the automated budget control system) reports by office, directorate, or other organizational break, as required, amounts budgeted for supplies (expendables) and equipment (non-expendables), amounts reprogrammed, amounts obligated, etc. Since the basic unit of the FRS system is FAN and subobject class, the only decision OL has to reach is the mix, array, and frequency with which it needs these reports. Through use of procurement plans, of the planned-for materiel forecasts, and of statistical information from FRS, the information then available for control of the "fourth quarter funding problem" will negate the need for use of information through PPA for this purpose.

h. General concensus exists for deferral of implementation of the direct funding system until FY 77. The simulation of direct funding and the ancilliary actions planned for FY 1976 will ensure continued interest in and attention to the proposal by those who have participated to date and will provide the framework within which to sustain momentum toward adoption of the direct funding budget policy.

i. Finally, and most important, simulated direct funding during FY 76 will provide the time needed to test and refine the direct funding system and to assess the system for purpose of recommendation for adoption in FY 77.

5. Please advise if you desire further description or explanation.



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PPA/PRA Study Working Group

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cc: Mr.
Mr.

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